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REPORT TO THE COMMITTEE ON THE BUDGET

FROM

THE COMMITTEE ON VETERANS' AFFAIRS

SUBMITTED PURSUANT TO SECTION 301 OF THE CONGRESSIONAL BUDGET ACT OF 1974

ON THE

BUDGET PROPOSED FOR FISCAL YEAR 1986

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REPORT OF THE COMMITTEE ON VETERANS' AFFAIRS ON BUDGET MATTERS UNDER ITS JURISDICTION

The Committee on Veterans' Affairs is submitting this report on estimates of budget matters under its jurisdiction pursuant to section 301(c) of the Congressional Budget and Impoundment Control Act of 1974, which states:

> On or before March 15 of each year, each standing committee of the House of Representatives shall submit to the Committee on the Budget of the House,...
>
> (1) its views and estimates with respect to all matters set forth in subsection (a) which relate to matters within the respective jurisdiction or functions of such committee or joint committee; and
>
> (2) except in the case of such joint committees, the estimate of the total amounts of new budget authority, and budget outlays resulting therefrom, to be provided or authorized in all bills and resolutions within the jurisdiction of such committee which such committee intends to be effective during the fiscal year beginning on October 1 of such year.

This report is based on the best information that is now available to the Committee. It is hoped that the report will be helpful to the Committee on the Budget in preparing its budget targets for the first concurrent resolution.

OBSERVATIONS ON THE FISCAL YEAR 1986 BUDGET

I. OVERVIEW

Throughout the more than 200-year history of the United States, nearly 38.3 million men and women have served in the Armed Forces during wartime. Nearly 1.1 million servicepersons sacrificed their lives in the defense of our country during periods of armed conflict. At the close of fiscal year 1984 there were approximately 22.8 million living war veterans, all of whom saw service in wars fought in the 20th century (i.e., Spanish-American War, World War I, World War II, Korean conflict, and Vietnam era). A total of 35.3 million served during these five wars and 697,000 died in service to their country. In addition to the 22.8 million living war veterans, there were about 3 million veterans who served only during the peacetime period between the Korean conflict and the Vietnam era, as well as 1.8 million peacetime veterans who entered military service after May 7, 1975, and have since returned to civilian life.

The total number of veterans living in the United States and Puerto Rico has been declining for several years. The number of living veterans decreased during fiscal year 1984 to 28.0 million, a loss of 174,000 from the end of fiscal year 1983. This contraction of the veteran population resulted from the addition of 269,000 service personnel discharged from active duty, and was more than offset by the reentry into active duty service of approximately 36,000 who had previously returned to civilian life and the loss of 407,000 veterans who died during fiscal year 1984.

The median age of all veterans in civilian life as of September 30, 1984 was 52.3 years.

Veterans 65 years of age or older totaled about 4.6 million (or nearly 1 of every 6 living veterans) at the end of September 1984. Their numbers are expected to peak at about 9 million by the year 2000, then decline to some 5.7 million by 2030. By the year 2000, approximately two of every three males 65 and over will be veterans. Those veterans presently 60-64 years old (3,863,000) will enter the older population group in the next five years. Similarly, the surviving veterans among those presently in the 55-59 year age group (3,734,000) will enter the 65 years and older veteran population during fiscal years 1989 through 1994. By the end of fiscal year 1994, nearly one of every three veterans will be 65 years old or older.

While the total number of male veterans continues to decline, the female veteran population is growing. Female veterans in the United States and Puerto Rico totaled 1,163,000 at the close of fiscal year 1984. By the year 2000 their numbers are expected to increase to 1,268,000.

This country has historically provided the veterans of its wars and their survivors with certain aid and benefits in expression of gratitude for their sacrifices and hardships.

In order to effectively carry out the intent of a grateful nation, the VA was established as an independent agency under the President by Executive Order 5398 of July 21, 1930, in accordance with the act of July 3, 1930 (46 Stat. 1016). This act authorized the President to consolidate and coordinate Federal agencies especially created for or concerned in the administration of laws providing benefits to veterans. The mission of the VA is to administer veterans' laws effectively, expeditiously and with sympathetic understanding, and to exercise constructive leadership in the field of veterans' affairs. The laws related to veterans benefits are contained in title 38, U.S.C.

Programs available to veterans and their dependents or survivors (Office of Management and Budget (OMB) function 700), are for the most part based on long traditions of compensating former servicepersons for hardships incurred in the course of military service. Most programs in this function are administered by the VA in support of these former members of the armed services and their survivors and dependents. The major veterans programs discussed below provide benefits that are similar in many respects to other human resource programs now available to those in the general population.

Compensation. Payment to veterans who have incurred disabilities in military service. Payments vary with the extent of disability and the amount of income foregone because of that disability. The severely disabled also received fixed statutory awards and dependents' allowances. Dependency and indemnity compensation (DIC) is paid to survivors of veterans who died from service-connected causes.

Pensions. Payment to non-service-connected disabled and aged wartime veterans and their dependents or to their survivors if the recipients' income falls below certain levels. However, there are several income exclusions in determining eligibility for pensions.

Readjustment benefits. Financial assistance for education, training, and rehabilitation to veterans and to certain of their dependents or survivors.

Hospital and medical care. Provided, usually in VA facilities, to service-connected disabled veterans, former prisoners of war, veterans exposed to Agent Orange and/or nuclear radiation, veteran pensioners, veterans 65 and over, and any other veteran who is unable to pay for the cost of care. Dependents of 100 percent service-connected disabled veterans and survivors of veterans who died from a service-connected disability are provided care through an insurance-type program administered for the VA by the Department of Defense, the Civilian Health and Medical Program of the Veteran's Administration (CHAMPVA).

Other veterans' programs. Include direct and guaranteed housing loans, life insurance, and burial benefits. The VA also operates programs such as research and health manpower training to support its medical care delivery system.

II. ANALYSIS OF THE PRESIDENT'S BUDGET REQUEST

The President's fiscal year 1986 budget for the VA provides for benefits and services to the country's 28.0 million veterans, the 51.3 million members of their families, and the 2.2 million survivors of deceased veterans.

For the period October 1, 1985 through September 30, 1986, budget authority of $27.12 billion is requested, consisting of appropriations of $26.3 billion, $-61.8 million for proposed legislation and an estimate of $851 million through permanent authorizations. Budget outlays for 1986 are estimated at $26.7 billion. The requested budget authority is a decrease of $123.5 million below 1985, caused primarily by the 5 percent reduction in 1986 employee pay, implementation of third party reimbursement for medical insurance coverage and a $156.4 million reduction in construction funding.

59.3 percent of the fiscal year 1986 budget's projected outlays ($15,601,150) are for benefits programs. The fiscal year 1986 budget requests $10.529 billion for the compensation program, which is $306.3 million higher than the fiscal year 1985 level. This increase includes a proposed 4.1 percent rate increase effective December 1985. $3.838 billion is requested for pensions, an increase of $26.6 million from the fiscal year 1985 level, which includes a 4.1 percent cost-of-living increase effective December 1, 1985. $1.026 billion is requested for readjustment benefits, which is $156 million less than the fiscal year 1985 level, and is caused by a reduction in the number of Vietnam era trainees. No funds are requested for the Emergency Veterans' Job Training program. The 1986 Budget requests $404.6 million to help fund obligations of $1,910.1 million for the Loan Guaranty program. Legislation will be proposed to increase the user fee from 1 percent to 5 percent on both guaranteed and vendee (direct) loans, and to allow the purchaser of VA properties the option of paying the 5 percent fee or, as an alternative, paying a 1 percent fee with a minimum 5 percent down payment and the purchase of private mortgage insurance. $9.355 billion is requested for medical programs; $611.8 million is requested for construction programs; and, $752.4 million is requested for General Operating Expenses.

Veterans' Administration average employment is expected to decrease by 919 to a level of 220,783 in fiscal year 1986. The employment levels for 1984, 1985, and 1986 are as follows:

1984:
Presidential request.....220,785
VA actual.....220,051

1985:
Presidential request.....223,296
VA estimated.....221,702

1986:
VA estimated.....220,783

A. BENEFITS AND ADMINISTRATION

1. Income security for veterans

For the fifth year, the Administration proposes dividing the Compensation and Pensions appropriations into three separate appropriation accounts -- Compensation, Pensions, and Burial Benefits and Miscellaneous Assistance. The Administration believes this structure would achieve a more informative presentation of the budgetary requirements for these major benefit programs, and that adoption of this new appropriation structure would more closely correspond to a government-wide functional program classification and facilitate program presentation.

In fiscal year 1986, it is estimated that 2.23 million veterans with service-connected disabilities will receive monthly compensation under existing legislation totaling $8.2 billion. Approximately 335,000 survivors of veterans whose deaths were service-connected or related to service-connected disabilities will receive an additional $2 billion. The total compensation requirement is $10.2 billion. For fiscal year 1986, legislation is proposed by the Administration for a 4.1 percent cost-of-living increase in compensation payments effective December 1, 1985, at a cost of $342.8 million. This will bring total compensation payments for fiscal year 1985 to $10.5 billion.

Approximately 676,000 veterans and 711,000 survivors will receive monthly pensions totaling $3.8 billion in 1986. Pension payments are based upon financial need, and this estimate includes a cost-of-living adjustment of 4.1 percent effective December 1, 1985, at a cost of $131.6 million.

The life insurance programs administered by the VA will provide coverage of $144.6 billion for 7.1 million servicepersons and veterans in fiscal year 1986.

2. Administration

a. General. The General Operating Expenses (GOE) account is used to administer non-medical veterans' benefit programs. The account primarily supports payroll expenses of personnel responsible for administering non-medical benefits to the veteran population. These benefits include the administration of VA compensation, pension, education, GI loan, and insurance programs, Board of Veterans' Appeals, Inspector General, other non-medical elements of Central Office as well as maintenance of the national cemetery system. The budget request of $749.4 million in budget authority reflects the Administration's proposal to reduce all Federal salaries by 5 percent in January 1986.

In the General Administration portion of GOE, funding and employment requirements are lower than the 1985 estimate, although overall work accomplished will not decrease. A consolidation of data processing operations, various automation initiatives, as well as overall increases in operating efficiencies will more than offset slight increases in the personnel area. Overall funding and employment are $680,000 and 154 Full Time Equivalent Employees (FTEE) below the 1985 current estimate.

The GOE appropriation request is 835 FTEE below the 1985 estimate. The budget request anticipates the closing of two data processing centers and a communications center.

b. Department of Veterans' Benefits. Compensation and pension claims within the Department are expected to decrease slightly. The number of education trainees is expected to continue to decrease significantly. The budget provides for an increase of 10 FTEE for the vocational rehabilitation and counseling service due to implementation of public law 98-543. This law will generate increased activity in the chapter 31 vocational training program for service-connected veterans, as will the newly authorized vocational training program for certain non-service connected disabled veterans under age 50 and in receipt of pension. Loan guaranty activity is expected to increase significantly. The insurance activity expects an increase in the number of death claims to offset the small decrease in policy service actions.

The department of veterans' benefits operates a network of 59 regional office/medical-regional office centers nationwide, and is expected to provide information to over 19.4 million individuals through correspondence, personal interviews and telephone actions, provide funding for 467,000 veteran and dependent education trainees, process 1.2 million housing loan guaranty actions and service 2 million life insurance policies.

Beginning in fiscal year 1986, the Administration proposes that all adjudication, loan processing and administrative functions be consolidated into three locations over a three year period. The President's budget contained this concept but no specific plans were transmitted to the Congress concurrently with the budget. Such plans are required by statute if the consolidation is to take place in fiscal year 1986. Provision is made in the 1986 budget request for $25.1 million to begin consolidation. The budget estimates that the Department of Veterans Benefits average employment would be reduced by 524 from the 1985 level due to consolidation. The budget also assumes a reduction of $12.3 million in the Department of Veterans Benefits because of a 5 percent salary pay cut in January 1986.

Information developed by the Committee reflects further anticipated reductions in FTEE of 906 for fiscal year 1987 and 772 for fiscal year 1988 for a total reduction of over 2300 FTEE over the three year period as a result of the consolidation proposal. The budget request also anticipates the closing of two data processing centers and a communications center.

Current law provides that the Administration may not in any fiscal year implement an administrative reorganization such as the one proposed in this consolidation plan unless the Administrator first submits to the Veterans' Affairs Committees a report containing a detailed plan. Such a plan must be submitted not later than the day on which the President submits his budget for the fiscal year to the Congress. The Administrator provided a letter to the Committees on Veterans' Affairs stating his intent to consolidate, but advised that the detailed plan would not be submitted until later in the year. The Chairman of the Committee and the Ranking Minority Member have informed the Administrator that his letter does not meet the statutory requirement for submission of a detailed plan concurrently with the budget submission.

The Committee points out that this proposal is duplicative of the proposal made four years ago by the President in his amendments to President Carter's budget proposal for fiscal year 1982. At that time, the Committee pointed out that the proposal would result in a deterioration of timeliness and quality of service to veterans and their dependents. It was also pointed out that relocation costs of transferred employees, as well as severance payments to displaced individuals, would negate any alleged savings for many years. It could be anticipated that many of the more experienced and well trained employees would avail themselves of early retirement rather than relocate to a

distant community, thus robbing the agency of the benefit of their expertise and years of experience. The ensuing years which would be required to again attain an acceptable level of competence and effectiveness of newly employed individuals at the relocation sites would produce a period of unacceptable levels of service to veterans and their families. The Committee emphatically rejects this non-legislative proposal to consolidate regional office functions and recommends both funding and FTEE to maintain the current network of regional offices.

The budget requested $25 million for funding relocation costs in fiscal year 1986. The committee rejects these requests and recommends adding $15 million to fund the restored 624 FTEE and $20 million in personnel services in anticipation of the rejection of the 5 percent salary reduction for all employees requested for January 1986. The net recommended restoration is $10 million.

The Committee is also greatly concerned, as are all veterans, about a proposal now being seriously considered by the Administration which would require veterans who receive compensation for service-connected injuries to pay federal income tax on those benefits. The proposal is part of the tax simplification plan submitted to the President by former Treasury Secretary Donald Regan. The taxing of compensation benefits has nothing to do with tax simplification.

On February 26, 1985, the Chairman of the Committee introduced House Concurrent Resolution 69, co-sponsored by every Member of the Committee, expressing the sense of the Congress that compensation should remain exempt from federal income taxation. Although this tax proposal is not included in the President's budget proposal for 1986, it has the potential for serious consequences on our nation's veterans. It is a tax increase on veterans, pure and simple.

The Committee wishes to express its firm opposition to this initiative. Appendix A1 of this report contains a copy of the Chairman's letter of January 9, 1985 to the President and appendix A4 a letter of February 7, 1985 from the Chairman and the Ranking Minority Member to the Secretary of the Treasury expressing strong opposition to the concept of taxing compensation.

3. Veterans' education, training and rehabilitation

The VA administers four education, training and rehabilitation programs for veterans and their dependents. The largest of these programs is the GI bill for persons who served on active duty during the Vietnam era. The number of Vietnam era veterans in this program is expected to continue to decrease as more veterans reach their delimiting date, generally 10 years following date of discharge or separation from the Armed Forces. Total GI bill trainees in 1986 are estimated at 397,000 -- a decrease of 89,800 from 1985.

The Post-Vietnam Era Veterans Educational Assistance Program (VEAP) is a voluntary contributory matching program for persons who entered the Armed Forces on or after January 1, 1977. The number of active duty serviceperson participants in fiscal year 1986 is estimated to be 337,741, a decrease of 77,000 from 1985. Approximately 61,360 are estimated to participate in training under this program, an increase of 11,910 over fiscal year 1985. It is also anticipated that the number of disenrollments in this program will increase by 6,000 from fiscal year 1985.

The number of trainees in the education and training program for spouses and children of veterans with a permanent and total service-connected disability or the spouse and children of veterans who died of a service-connected disability is estimated to be approximately 54,300, a decline of 7,300 from fiscal year 1985.

Vocational rehabilitation for service-connected disabled veterans whose disabilities resulted in a vocational handicap is the oldest education and training program administered by the VA. This is a continuous, open-ended program which includes the payment of a monthly subsistence allowance, plus educational expenses, to eligible veterans who need this special assistance. It is estimated that 28,400 veterans will receive training under this program in fiscal year 1986, a decline of 800 from fiscal year 1985.

Public Law 98-77, the "Emergency Veterans' Job Training Act of 1983," established an emergency program of job training assistance for unemployed Korean conflict and Vietnam era veterans. The deadline for application for participation under this program was February 28, 1985. The Committee proposes to extend this date and make other amendments to this very successful program in order to maximize its effectiveness. No additional appropriations will be authorized at this time; therefore, there will be no additional costs in fiscal year 1986.

On October 24, 1984, the President signed into law the Veterans' Benefits Improvement Act of 1984, Public Law 98-543. Section III of this law created a three year pilot program to provide an incentive and the opportunity for vocational counseling and training under Chapter 31 for any service-connected veteran receiving compensation based on a rating of individual unemployability.

Section 301 of Public Law 98-543 established a 3 year pilot program to make vocational training available to certain veterans under age 50 who are awarded pension on or after February 1, 1985. The purpose of this provision is to provide vocational training to wartime veterans who have become disabled after separation from service. It is anticipated that this will restore many of these individuals to the labor market and gainful employment, thereby removing them from the VA pension rolls.

Further demands will be made on the Vocational Rehabilitation and Counseling Service by eligible veterans seeking professional vocational counseling under Public Law 98-77, the Emergency Veterans' Job Training Act of 1983.

The President has recommended an increase of 10 FTEE in anticipation of the increased workloads resulting from implementation of these laws. The Committee recommends an overall increase of 23 FTEE, 13 more than requested in the budget. The Committee feels this modest increase is warranted in order to ensure an effective and timely implementation of these innovative laws.

Title VII of Public Law 98-525 established a new GI bill, chapter 30, the All-Volunteer Force Educational Assistance Program. It has been brought to the attention of the Committee that the military services are experiencing difficulty in recruiting as the result of a provision in the law which establishes July 1, 1985, as the beginning date of this new GI bill. Consequently, the Committee has reported legislation which will ensure an orderly transition to the new educational assistance program established by chapter 30 of that title.

The Administration has again proposed to repeal the authority that permits the VA to make education loans, which would result in an estimated saving of $44,000 in fiscal year 1986. This program is available only for post-delimiting date loans under title 38, U.S.C. chapters 34 and 35, and flight training for enrollments under chapter 34. The Committee rejected this proposal made by the Administration for fiscal year 1985 and rejects it again for fiscal year 1986.

4. Veterans' housing

The Loan Guaranty Program provides housing credit assistance to eligible veterans and service personnel through guarantees of loans made by private lenders and through direct loans to severely disabled veterans on more liberal terms than generally available to non-veterans, without the assumption of undue risks by the Government.

The loan guaranty revolving fund finances the operation of the Loan Guaranty Program, excluding administrative costs. The guarantee may be applied to buying, building or repairing a home, condominium or manufactured housing unit.

Assistance is provided chiefly through substituting the Government's guaranty on loans in lieu of the substantial downpayments, relatively short terms, and other investment safeguards applicable to conventional mortgage transactions. The program also assists certain totally disabled veterans in receiving specially adapted housing grants.

The Direct Loan Program was originally funded to provide credit assistance to eligible veterans, certain surviving spouses and active duty servicepersons in rural areas and small towns or cities where the availability of private mortgage funds was limited. The direct loan revolving fund finances all operations of the Direct Loan Program. The maximum direct loan is $33,000.

New direct loans are presently restricted to disabled veterans requiring specially adapted housing assistance. Prior loans will continue to be serviced with funds from the revolving loan fund. The VA estimates the number of direct loans in fiscal year 1986 to be 15, at a cost of $454,000.

During 1984, 251,588 loans were guaranteed which was a slight increase over last year's activity. If interest rates remain steady, the VA loan volume can be expected to remain at constant levels.

Cumulatively, since the inception of the program, through September 30, 1984, 11,752,373 loans totaling $232.5 billion have been made or guaranteed to purchase conventional housing, condominiums and manufactured housing units. In addition 18,690 severely disabled veterans have obtained $40.6 million in approved grants to purchase housing specially adapted to their needs.

Since the inception of the program, 458,645 claims have been settled. Incident to those claims, and as a result of foreclosures of direct loans, 481,466 of these properties have been sold. In addition, 5,833 properties were redeemed.

The Committee has received a Congressional Budget Office (CBO) analysis of the budget authority and outlay figures contained in the President's budget for the loan guaranty revolving fund. According to CBO, the VA could sell more real properties than the number projected in the President's budget. New approaches to the sale of such property, such as auctioning and increased discounts, along with a steady decline in interest rates, would generate far more sales and revenue than the VA is projecting. Therefore, the revenues would finance the fund's projected deficits through 1990, eliminating the need for appropriations during this period.

The Committee's recommendation to the Budget Committee assumes that the CBO analysis is correct. Even a superficial analysis of the VA's budget presentation reveals that the VA is projecting much larger losses per property acquired, along with historically high portfolio loan and property inventories.

The fiscal year 1986 budget proposes to increase the fee charged by the VA to guaranty a home loan from 1 percent to 5 percent of the mortgage principal.

The Committee is very concerned about this proposed change. The VA Administrator, himself, characterizes his endorsement as "reluctant" and urges caution. The CBO estimates that "the net impact of all these changes could be fund outlays in 1990 that are actually higher than would be expected under current law." Accordingly, the Committee recommends that the 1 percent user fee be retained.

Additionally, the President's budget proposes legislation allowing for borrower/lender negotiated rates on guaranteed and vendee loans (mortgages), thereby terminating the Administrator's authority to set interest rates. The Committee does not support either of these changes as they would not be of benefit to the veteran.

5. Department of Memorial Affairs

The Department of Memorial Affairs portion of the GOE account is increased in the fiscal year 1986 budget by $97,000. The additional resources are requested to support increasing operational requirements in cemetery workloads. The 1986 funding request reflects a reduction of $1,093,000 which relates to a government-wide 5 percent reduction in salary rates effective January 1986. The rate of burials is expected to increase by 8 percent over 1984 for the entire system.

Provision is also made in the 1986 budget for the maintenance and operation of 141 cemetery and miscellaneous activities, including funding and employment (16 FTEE) for the Ft. Mitchell National Cemetery scheduled to open in the fall of 1986 and the Bay Pines National Cemetery, which was reopened in July 1984. A reduction of 73 FTEE in anticipation of contracting out of additional cemetery operations is expected following A-76 assessments.

B. DEPARTMENT OF MEDICINE AND SURGERY

In the previous Committee report to the Committee on the Budget, it was noted that the VA's Department of Medicine and Surgery was at a crossroads in terms of fulfilling its mission of providing quality health care to our Nation's veterans. It was further noted in that report that the VA was expected to release a report on the aging veteran population and its health care needs some time in 1984. The report, "Caring for the Older Veteran", was released in the fall and provided substantial data concerning the demand for VA health care by age 65 and older veterans. To develop the statistical data needed for the report, the VA contracted with Louis Harris Associates for a survey of veterans aged 55 and over. The survey indicated there were 3.0 million veterans over age 65 in 1980, which was 15 percent of the total veteran population. By 1990, there will be 7.2 million in this group, and the number of veterans age 65 and older will peak in 2000 with 9.0 million.

The Administrator states in the preface of the report that, while it presents the needs of the aging veteran and highlights the VA's existing capabilities, pilot programs and research efforts directed at the aging issue, the report was also designed to provide the necessary data, analysis and options from which necessary policy discussion can occur. The Committee is quite concerned that this budget seems to ignore the urgent requirements stated so clearly in this credible document by maintaining the status quo on most geriatric programs, such as adult day health care services and geriatric evaluation units.

It is patently obvious that resources must increase over the next 20 years to meet the anticipated demand for services by the aging veteran population. Yet, the fiscal year 1986 budget contains a reduction of 2,169 acute care beds from that contained in the original fiscal year 1985 budget, a clear violation of current law. Section 5010 of title 38, U.S.C. requires the VA to operate and maintain not less than 90,000 hospital and nursing home beds. Public Law 98-371, the HUD-Independent Agencies Appropriation Act for fiscal year 1985, mandated a VA medical staffing level of 193,941. OMB "adjusted" the fiscal year 1985 staffing level to 191,849--2,092 fewer employees than mandated by the Congress.

The Committee understands that this reduction results primarily from the VA's proposal to absorb $106,695,000 of the funds required to cover increased pay costs. The stated rationale is that the VA now projects that the budget workloads can be achieved with an employment level of 191,849. The 1986 medical care budget requests funds to support 192,048 FTEE. This is a reduction of 1,273 FTEE from the original fiscal year 1985 budget request, and not an increase of 199 FTEE as indicated in this year's budget. Reducing medical care staffing when the VA is faced with a growing number of elderly veterans is clearly not prudent.

The Committee is recommending a restoration of the funds and personnel necessary to maintain a current services level in the VA health care system. This recommendation includes funds for current salary levels in the medical care ($203 million), research ($4 million), and medical administration ($1 million) accounts.

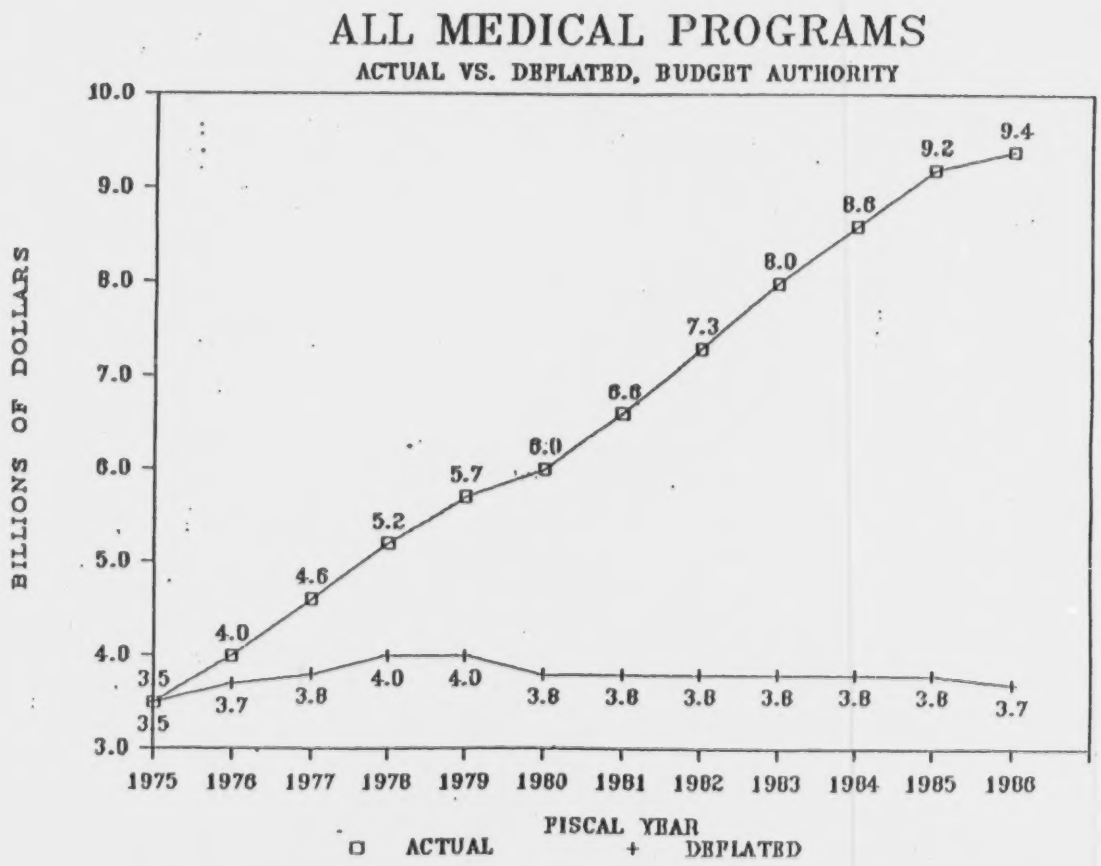
Funds are also provided to restore amounts cut in anticipation of the enactment of legislation to authorize the VA to seek third-party reimbursement from private insurers for care provided in VA medical facilities. The Omnibus Reconciliation Act of 1980 addressed the issue of third-party reimbursement by authorizing the administration to "look behind" the poverty oath in determining a veteran's inability to defer expenses for health care, as an alternative to third-party reimbursement. The Committee will examine the Administration's proposal for third-party reimbursment when it is transmitted to the Congress in light of the Administration's planned implementation of a means test, since an effective means test may prevent persons with private insurance from receiving care from the VA. As of this date, the Administration has not formally transmitted its proposals to the Congress.

The Committee has been advised that the House Committee on Appropriations is planning to restore funding and personnel (2,092 FTEE) in the Medical Care account for fiscal year 1985 to maintain staffing at the level assumed when the VA's fiscal year 1985 appropriation was enacted (see Chairman Boland's letter to Administrator Walters at Appendix A6). The Committee's recommendation provides funding for these employees in fiscal year 1986, along with funding for employees necessary to staff facilities being activated in fiscal year 1986 (2,068 FTEE). The Committee recommendation also would keep funding for the state veterans home grant program at the fiscal year 1985 level.

It is noted that the Administration is requesting a change in the appropriation language which would provide $5 million to conduct OMB Circular A-76 cost comparison studies, an increase of $3 million over fiscal year 1985. These studies are to be conducted in accordance with title 38, U.S.C. 5010(a)(5). In light of the very austere nature of the medical care budget, the Committee strongly objects to this request and recommends that the Committee on Appropriations not approve any funding for this purpose and use these funds to provide health care services to eligible veterans.

The fiscal year 1986 budget also proposes drastic reductions in construction funds which will delay construction of major replacement/modernization hospital projects. Included in these delays are hospitals at Augusta, Georgia; New York City; Houston, Texas; and Philadelphia, Pennsylvania. These deferrals will not only delay the needed upgrade of health care delivered to veterans in these geographic areas, but will result in increased cost to taxpayers due to the inflationary impact caused by delaying construction.

Last year the Committee added $50 million to the medical care budget to provide an increase in the number of outpatient visits due to a freeze on that account from the previous year. This budget proposal provides a very modest increase of approximately two visits per day for each of the 226 outpatient clinics, and is an outstanding example of the "no growth" history of the medical care budget when adjusted to the Consumer Price Index. The following chart graphically illustrates the straight line effect of medical care funds since fiscal year 1975.


ALL MEDICAL PROGRAMS
ACTUAL VS. DEFLATED, BUDGET AUTHORITY
BILLIONS OF DOLLARS
10.0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986
FISCAL YEAR
ACTUAL
DEFLATED
3.5
4.0
4.6
5.2
5.7
6.0
6.6
7.3
8.0
8.6
9.2
9.4
3.5
3.7
3.8
4.0
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3.8
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III. VETERANS' BENEFITS AND SERVICES AS A PART OF THE TOTAL FEDERAL BUDGET

The following table indicates total federal outlays, veterans' benefits and services outlays (function 700) and the precentage for benefits and services for fiscal years 1976 through 1986.

Total Federal Outlays and Veterans' Benefits and Services Outlays
Fiscal Years 1976 - 1986

(In millions of dollars)

Fiscal Year	Total Federal Outlays	Veterans' Benefits and Services	Veterans as Percent of Outlays
1976	371,779	18,433	5.0
1977	409,203	18,038	4.4
1978	458,729	18,978	4.1
1979	503,464	19,931	4.0
1980	590,920	21,185	3.6
1981	678,209	22,991	3.4
1982	745,706	23,958	3.2
1983	808,327	24,846	3.1
1984	851,781	25,614	3.0
1985 (est.)	959,085	26,850	2.8
1986 (est.)	973,725	26,769	2.8

Source: Budget of the United States Government for Fiscal Year 1986, table 20.

The above table indicates that in 1976 the percentage of total Federal outlays spent on veterans' benefits and services was 5.0 percent. Since that time, there has been a steady decrease, with an estimate for fiscal year 1986 of 2.8 percent.

From 1950 to the present, the veteran population has increased by approximately 18.5 million to 28.0 million. Two major GI bill programs educated millions of veterans. Twenty-two major veterans health care measures were approved by the Congress, and 29 hospitals were added to the VA hospital system. Federal outlays for veterans' benefits and services have increased only by a ratio of 3 compared to 345 for Social Security and Medicare; 130 for health; 122 for education, training, employment and social services, and 28 for income security.

Federal Outlays for Human Resources Programs
Selected Years 1950 - 1986

(In millions of dollars)

Fiscal Year	Education, Training, Employment and Social Services	Health	Social Security and Medicare	Income Security	Veterans' Benefits and Services
1950	241	268	781	4,097	8,834
1955	445	291	4,436	5,061	4,675
1960	968	795	11,602	7,378	5,441
1965	2,146	1,791	17,460	9,455	5,723
1970	8,634	5,907	36,487	15,645	8,679
1975	16,022	12,930	77,533	50,160	16,599
1980	31,843	23,169	150,638	86,539	21,185
1985 (est.)	30,434	33,879	257,363	127,240	26,850
1986 (est.)	29,288	34,920	269,404	115,769	26,769
Ratio of increase (fold)	122	130	345	28	3

Source: Office of Management and Budget, Historical Tables, Budget of the United States Government, Fiscal Year 1986, table 3.2.

Federal spending for health and Medicare programs is expected to total $102,078 million in 1985. The following table displays the total Federal outlays for health, Medicare and veterans' hospital and Medical Care, and the percentage attributable to veterans. It is interesting to note the steady decline of Federal outlays attributed to veterans from 1976 to the present year.

Federal Outlays for Health, Medicare and Veterans' Hospital and Medical Care Fiscal Years 1976 - 1986

(In millions of dollars)

Fiscal Year	Outlays for Health a/	Outlays for Medicare	Outlays for Veterans' Hospital and Medical Care	Total	Veterans as Percent of Total
1976	15,734	15,834	4,046	35,614	11.4
1977	17,302	19,345	4,708	41,355	11.4
1978	18,524	22,768	5,254	46,546	11.3
1979	20,494	26,495	5,611	52,609	10.7
1980	23,169	32,090	6,515	61,774	10.5
1981	26,866	39,149	6,965	72,980	9.5
1982	27,445	46,567	7,517	81,529	9.2
1983	28,641	52,588	8,272	89,501	9.2
1984	30,417	57,540	8,861	96,818	9.2
1985 (est.)	33,879	66,256	9,621	109,756	8.8
1986 (est.)	34,920	67,185	9,994	112,072	8.9

a/ Outlays include a budget function 550. Does not include Medicare, Veterans Administration or Defense Department spending for health care.

Source: Budget of the United States Government for fiscal year 1986, table 20.

The following table provides federal outlays for veterans benefits and services as a percent of Gross National Product (GNP) for fiscal years 1976-1986 (estimated). As a percentage of GNP, the cost of veterans' benefits and services has steadily declined, from 1.13 in 1975 to 0.64 in 1986, to a level which is 55 percent of the level provided ten years ago.

Federal Outlays for Veterans Benefits and Services as a percent of Gross National Product

Fiscal Years 1976 - 1986

Fiscal Year	Percent of GNP
1976	1.13
1977	0.98
1978	0.91
1979	0.85
1980	0.82
1981	0.80
1982	0.79
1983	0.77
1984	0.72
1985 (est.)	0.69
1986 (est.)	0.64

Source: Office of Management and Budget. Historical Tables, Budget of the United States Government, fiscal year 1986.

VETERANS' ADMINISTRATION PROGRAMS BY FUNCTIONAL DISTRIBUTION

The programs under the Committee's jurisdiction are administered by the VA and are broken down into several subfunctional classifications. There follows a list of the functions and programs included in the VA budget for fiscal year 1985, as well as a comparison of total budget authority and outlays recommended by the Administration and that proposed by the Committee on Veterans' Affairs.

For purposes of clarity, the functions and their respective programs defined by OMB are as follows:

701. INCOME SECURITY FOR VETERANS

Compensation and pensions:
- Service-connected compensation
- Non-service-connected pensions
- Other veterans income security programs

Insurance Programs:
- Veterans insurance and indemnities
- Service-disabled veterans insurance fund
- Veterans reopened insurance fund
- National service life insurance
- U.S. Government life insurance
- Veterans special life insurance
- NSLI and USGLI receipts

702. VETERANS EDUCATION, TRAINING, AND REHABILITATION

- Readjustment benefits
- Education loan fund
- Vocational rehabilitation revolving loan fund
- Post-Vietnam era veterans' education account

703. HOSPITAL AND MEDICAL CARE FOR VETERANS

- Medical Care
- Medical and prosthetic research
- Medical administration and miscellaneous operating expenses
- Construction, major projects
- Construction, minor projects
- Grants for construction of State extended-care facilities
- Grants to the Republic of the Philippines
- Assistance for health manpower training institutions

704. VETERANS HOUSING

- Loan guaranty revolving fund
- Direct loan revolving fund

705. OTHER VETERANS BENEFITS AND SERVICES

General operating expenses
Canteen service revolving fund
Supply fund
Special therapeutic and rehabilitation activities fund
General post fund
Grants for construction and operation of State cemeteries

BUDGET AUTHORITY

(In millions of dollars)

Appropriation/fund account	1984	1985	1986	Change	Chairman's Recommendation	Change
Federal funds:						
Benefit programs:						
Compensation	$9,952.512	$10,222.481	$10,186.000	$- 36.481	$10,186.000	---
Pensions	3,916.000	3,811.419	3,838.000	+ 26.581	3,838.000	---
Burial benefits and miscellaneous assistance	128.388	134.000	136.800	+ 2.800	136.800	---
Readjustment benefits	1,443.200	1,182.000	1,026.000	-156.000	1,026.000	---
Veterans insurance and indemnities	7.400	11.000	9.750	- 1.250	9.750	---
Reinstated entitlement program for survivors	51.000	---	---	---	---	---
Emergency veterans job training	130.000	---	---	---	---	---
Loan guaranty revolving fund	260.000	306.600	404.600	+ 98.000	0	-404.600
Total benefit programs	15,888.500	15,667.500	15,601.150	- 55.350	15,196.550	-404.600
Medical programs:						
Medical care	8,244.414	8,854.428	9,090.000	+235.572	9,542.000	+ 452.000
Medical and prosthetic research	217.680	192.372	187.080	- 5.292	192.080	+ 5.000
Medical administration and miscellaneous operating expenses	66.552	67.891	55.879	- 12.012	57.079	+ 1.200
Grants for construction of State extended care facilities	18.000	34.500	22.000	- 12.500	34.500	+ 12.500
Grants to the Republic of the Philippines	.500	.500	.500	---	.500	---
Total medical programs	8,547.146	9,149.691	9,355.459	+205.768	9,826.159	+ 470.700
Construction programs:						
Construction, major projects	345.692	568.194	417.200	-150.994	417.200	---
Construction, minor projects	185.378	199.823	194.400	- 5.423	194.400	---
Total construction programs	531.070	768.017	611.600	-156.417	611.600	---

BUDGET AUTHORITY-CONTINUED

(In millions of dollars)

Appropriation/fund account	1984	1985	1986	Change	Chairman's Recommendation	Change
General operating expenses and miscellaneous:						
General operating expenses	$ 715.676	$ 754.052	$ 749.412	$- 4.640	$ 759.412	+ 10.000
Grants for the construction of State veterans cemeteries	3.000	5.000	3.000	- 2.000	3.000	---
Total GOE and miscellaneous	718.676	759.052	752.412	- 6.640	762.412	+ 10.000
Total appropriations, adjusted	25,685.392	26,344.260	26,320.621	- 23.639	26,396.721	+ 76.100
Proposed legislation:						
Compensation	---	---	342.800	+342.800	342.800	---
Loan guaranty revolving fund	---	---	-404.600	-404.600	-0-	+ 404.600
Total proposed legislation	---	---	- 61.800	- 61.800	342.800	+ 404.600
Proprietary receipts from the public	- 59.070	---	- 65.000	- 65.000	-0-	+ 65.000
Total Federal funds	25,626.392	26,344.260	26,193.821	-150.439	26,739.521	+ 545.700
Trust funds:						
Post-Vietnam era veterans education account	224.776	218.000	171.000	- 47.000	171.000	---
General post fund	13.447	14.000	15.000	+ 1.000	15.000	---
National service life insurance	1,248.781	1,248.900	1,297.200	+ 48.300	1,297.200	---
U.S. Government life insurance	23.279	20.900	18.800	- 2.100	18.800	---
Total trust funds (gross)	1,510.283	1,501.800	1,502.000	+ .200	1,502.000	---
Proprietary receipts from the public	- 617.028	- 560.100	-515.250	+ 44.850	- 515.250	---
Total trust funds (net)	893.255	941.700	986.750	+ 45.050	986.750	---
Intragovernmental transactions	- 51.008	- 52.775	- 70.939	- 18.164	- 70.939	---
Total Veterans' Administration	$ 26,468.569	$27,233.185	$27,109.632	$- 123.553	27,655.332	+ 545.700

OUTLAYS

(In millions of dollars)

Appropriation/fund account	1984	1985	1986	Change	Chairman's Recommendation	Change
Federal funds:						
Benefit programs:						
Compensation	$ 9,915.741	$10,210.700	$10,194.000	$- 16.700	$ 10,194.000	---
Pensions	3,874.220	3,846.600	3,833.000	- 13.600	3,833.000	---
Burial benefits and miscellaneous assistance	128.388	134.000	136.800	+ 2.800	136.800	---
Readjustment benefits	1,408.267	1,246.285	1,034.500	+ 211.785	1,034.500	---
Veterans insurance and indemnities	7.167	11.000	9.750	- 1.250	9.750	---
Reinstated entitlement program for survivors	44.802	2.325	---	- 2.325	---	---
Emergency veterans job training	17.078	88.423	35.000	- 53.423	35.000	---
Loan guaranty revolving fund	369.847	425.000	383.500	- 41.500	136.300	-247.200
Direct loan revolving fund	-44.573	-48.716	-45.600	+ 3.116	- 45.600	---
Service-disabled veterans insurance fund	- .395	- 1.000	1.000	+ 2.000	1.000	---
Veterans reopened insurance fund	-15.864	9.800	46.400	+ 36.600	46.400	---
Education loan fund	- 6.780	- 7.300	- 7.500	- .200	- 7.500	---
Vocational rehabilitation revolving fund	.024	.008	- .026	- .034	- .026	---
Servicemen's group life insurance fund	-27.010	-28.200	20.100	+ 48.300	20.100	---
Total benefit programs	15,670.912	15,888.925	15,640.924	- 248.001	15,393.724	-247.200
Medical programs:						
Medical care	8,123.794	8,742.021	9,051.700	+ 309.679	9,485.700	+434.000
Medical and prosthetic research	186.283	223.346	187.080	- 36.266	191.080	+ 4.000
Medical administration and miscellaneous operating expenses	64.581	67.561	57.379	- 10.182	58.579	+ 1.200
Grants for construction of State extended care facilities	5.154	18.064	24.125	+ 6.061	29.125	+ 5.000
Grants to the Republic of the Philippines	.454	1.046	.500	- .546	.500	---
Assistance for health manpower training institutions	5.252	4.020	---	- 4.020	---	---
Canteen service revolving fund	1.224	- .504	- .307	+ .197	- .307	---
Special therapeutic and rehabilitation activities fund	- .072	- .010	- .010	---	- .010	---
Total medical programs	8,386.676	9,055.544	9,320.467	+ 264.923	9,764.667	+ 444.200

OUTLAYS-CONTINUED

(In millions of dollars)

Appropriation/fund account	1984	1985	1986	Change	Chairman's Recommendation	Change
Construction programs:						
Construction, major projects	$ 352.805	$ 425.123	$ 581.100	$+ 155.977	581.100	---
Construction, minor projects	122.663	139.746	156.700	+ 16.954	156.700	---
Total construction programs	475.468	564.869	737.800	+ 172.931	737.800	---
General Operating Expenses and Miscellaneous:						
General operating expenses	704.093	750.905	748.856	- 2.049	757.856	+ 9.000
Grants for the construction of State veterans cemeteries	.849	2.600	2.600	---	2.600	---
Supply fund	- 9.477	---	---	---	---	---
Total GOE and miscellaneous	695.465	753.505	751.456	- 2.049	760.456	+ 9.000
Total appropriations and funds	25,228.521	26,262.843	26,450.647	+ 187.804	26,656.647	+ 206.000
Proposed legislation:						
Compensation	---	---	285.700	+ 285.700	285.700	---
Loan guaranty revolving fund	---	---	-604.600	- 604.600	0	+ 604.600
Education loan fund	---	---	- .044	- .044	0	+ .044
Total proposed legislation	---	---	-318.944	- 318.944	285.700	+ 604.644
Proprietary receipts from the public	- 59.070	---	- 65.000	- 65.000	---	+ 65.000
Total Federal funds	25,169.451	26,262.843	26,066.703	- 196.140	26,942.347	+ 875.644
Trust funds:						
Post-Vietnam era veterans education account	155.996	185.000	211.000	+ 26.000	211.000	---
General post fund	10.479	12.500	13.500	+ 1.000	13.500	---
National service life insurance	922.003	981.600	1,042.700	+ 61.100	1,042.700	---
U. S. Government life insurance	51.879	49.200	45.700	- 3.500	45.700	---
Veterans special life insurance	- 57.992	- 67.000	- 64.500	+ 2.500	- 64.500	---
Total trust funds (gross)	1,082.365	1,161.300	1,248.400	+ 87.100	1,248.400	---
Proprietary receipts from the public	-617.028	-560.100	-515.250	+ 44.850	- 515.250	---
Total trust funds (net)	465.337	601.200	733.150	+ 131.950	733.150	---
Intragovernmental transactions	- 51.008	- 52.775	- 70.939	- 18.164	- 70.939	---
Total Veterans' Administration	$25,583.780	$26,811.268	$26,728.914	$ - 82.354	27,604.558	+ 875.644

BUDGET AUTHORITY
1977-1986
(dollars in thousands)

	ACTUALS					ESTIMATES				
Appropriation/Fund Account	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Federal funds:										
Benefit programs:										
Compensation and pensions	$11,982,500	$9,636,400	...	...	...	...	...	...	...	...
Compensation	...	...	$6,909,452	$7,337,300	$8,529,783	$9,590,493	$9,565,916	$9,952,512	$10,222,481	$10,186,000
Pensions	...	...	3,554,848	3,678,800	3,794,177	4,047,600	3,741,634	3,916,000	3,811,419	3,838,000
Burial benefits and miscellaneous assistance	...	...	178,545	185,700	207,684	140,057	122,250	128,388	134,000	136,800
Readjustment benefits	3,983,900	2,617,778	2,509,555	2,318,535	2,349,673	1,964,100	1,666,800	1,443,200	1,182,000	1,026,000
Veterans insurance and indemnities	7,000	3,712	5,750	5,400	5,406	9,350	6,400	7,400	11,000	9,750
Reinstated entitlement program for survivors	...	...	...	...	...	...	...	51,000	...	...
Emergency veterans job training	...	...	...	...	...	...	...	130,000	...	...
Loan guaranty revolving fund	...	...	...	...	...	...	...	260,000	306,600	404,600
Education loan fund	...	17,200	...	...	...	...	...	...	...	...
Vocational rehabilitation revolving fund	...	...	...	...	1,250	...	...	...	...	...
Total benefit programs	12,973,400	12,275,090	13,158,150	13,530,735	14,892,973	15,751,600	15,103,000	15,888,500	15,667,500	15,601,150
Medical programs:										
Medical care	4,373,807	4,924,649	5,374,374	5,832,039	6,339,396	7,101,028	7,773,254	8,244,414	8,854,428	9,090,000
Medical and prosthetic research	104,533	111,053	122,847	125,847	140,070	140,855	154,839	217,680	192,372	187,080
Medical administration and miscellaneous operating expenses	39,941	43,316	47,058	48,205	52,809	69,369	56,420	66,552	67,891	55,879
Grants for construction of state extended care facilities	10,000	15,000	10,000	7,500	15,000	15,840	18,000	18,000	34,500	22,000
Grants to the republic of the philippines	2,100	1,700	500	1,350	1,200	1,000	500	500	500	500
Assistance for health manpower training institutions	45,045	53,411	104,905	...	...	...	...	...	...	...
Total medical programs	4,575,426	5,169,129	5,659,684	6,014,941	6,548,475	7,328,092	8,003,013	8,547,146	9,149,691	9,355,459
Construction programs:										
Construction, major projects	405,681	393,689	365,560	321,292	216,614	372,270	670,792	345,692	568,194	417,200
Construction, minor projects	92,791	95,234	86,345	73,233	108,908	102,010	141,748	185,378	199,823	194,400
Total construction programs	498,472	488,923	451,905	394,525	370,522	474,280	812,540	531,070	768,017	611,600
General operating expenses and misc.										
General operating expenses	525,633	581,850	631,675	611,609	643,251	662,057	690,152	715,676	754,052	749,412
Grants for the construction of state veterans cemeteries	...	...	...	5,000	5,000	...	2,500	3,000	5,000	3,000
Total general operating expenses & miscellaneous	525,633	581,850	631,675	616,609	648,251	662,057	692,652	718,676	759,052	752,412

BUDGET AUTHORITY

1977-1986

(dollars in thousands)

Appropriation/Fund Account	ACTUALS 1977	1978	1979	1980	1981	1982	1983	1984	ESTIMATES 1985	1986
Federal funds (continued):										
Total appropriations (adjusted)	18,572,931	18,514,992	19,901,414	20,551,810	22,455,221	24,216,029	24,611,205	25,685,392	26,344,260	26,320,621
Proposed legislation:										
Compensation	...	...	...	...	...	...	...	...	...	342,800
Loan guaranty revolving fund	...	...	...	...	...	...	...	...	...	-404,600
Total proposed legislation	...	...	...	...	...	...	...	...	...	-61,800
Deduct: Proprietary receipts from the public	-679	-3,138	-3,821	-2,450	-2,942	-3,476	-77,510	-59,070	...	-65,000
Total federal funds	18,572,252	18,511,854	19,897,593	20,549,360	22,452,279	24,212,553	24,533,695	25,626,322	26,344,260	26,193,821
Trust funds:										
Post-vietnam era veterans education account	3,321	31,736	70,788	111,302	142,245	161,057	222,315	224,776	218,000	171,000
General post fund	5,497	6,305	6,460	7,414	7,707	9,942	10,667	13,447	14,000	15,000
National service life insurance	912,821	939,727	982,543	1,044,166	1,104,104	1,163,633	1,202,072	1,248,781	1,248,900	1,297,200
U.S Government life insurance	37,402	36,153	38,310	37,968	34,152	31,209	26,268	23,279	20,900	18,800
Total trust funds (gross)	959,041	1,013,920	1,098,101	1,200,850	1,288,208	1,365,841	1,461,322	1,510,283	1,501,800	1,502,000
Deduct: Proprietary receipts from the public	-486,982	-512,960	-526,328	-572,587	-600,967	-612,103	-605,105	-617,028	-560,100	-515,250
Total trust funds (net)	472,059	500,960	571,773	628,263	687,241	753,738	856,217	893,255	941,700	986,750
Deduct: Intragovernmental transactions	-2,148	-2,472	-2,369	-3,014	-6,640	-21,521	-65,911	-51,008	-52,775	-70,939
Total Veterans Administration	$19,042,164	$19,010,342	$20,466,997	$21,174,609	$23,132,880	$24,944,770	$25,324,001	$26,468,569	$27,233,185	$27,109,632

BUDGET OUTLAYS
1977-1986
(dollars in thousands)

Table Continued

Appropriation/Fund Account	ACTUALS 1977	1978	1979	1980	1981	1982	1983	1984	ESTIMATES 1985	1986
Federal funds (Continued):										
Construction programs:										
Construction, major projects	168,402	161,930	150,232	189,506	307,558	345,232	337,782	352,805	425,123	581,100
Construction, minor projects	65,438	81,332	86,265	105,168	97,773	83,355	90,872	122,663	139,746	156,700
Total construction programs	233,841	243,262	236,497	294,675	403,331	428,678	428,654	475,468	564,869	737,800
General operating expenses and misc.										
General operating expenses	510,265	558,082	603,295	629,295	624,133	649,939	673,710	704,093	750,905	748,856
Grants for the construction of state veterans cemeteries	...	...	...	234	674	861	1,593	849	2,600	2,600
Supply fund	7,820	43	-7,596	-4,249	-841	-11,511	-22,376	-9,477	...	...
Total general operating expenses & misc	518,085	558,125	595,699	625,280	623,966	639,289	652,927	695,465	753,505	751,456
Total appropriations and funds	17,782,094	18,795,962	19,582,143	20,713,155	22,453,887	23,520,271	24,531,327	25,228,521	25,262,843	26,450,647
Proposed legislation:										
Compensation	...	...	...	...	...	...	...	...	...	285,700
Loan guaranty revolving fund	...	...	...	...	...	...	...	...	...	-604,600
Education loan fund	...	...	...	...	...	...	...	...	...	-44
Total proposed legislation	...	...	...	...	...	...	...	...	...	-318,944
Deduct: Proprietary receipts from the public	-679	-3,138	-3,821	-2,450	-2,942	-3,476	-77,510	-59,070	...	-65,000
Total federal funds	17,781,415	18,792,824	19,578,322	20,710,705	22,450,945	23,516,795	24,453,817	25,169,451	26,262,843	26,066,703
Trust funds:										
Post-vietnam era veterans education account	...	10	13,815	32,653	62,777	107,453	140,329	155,996	185,000	211,000
General post fund	4,375	5,032	5,547	6,186	6,887	7,641	9,449	10,479	12,500	13,500
National service life insurance	697,602	667,762	785,393	928,228	965,147	925,291	890,928	922,003	981,600	1,042,700
U.S. Government life insurance	71,105	66,973	70,841	76,317	70,048	64,332	59,851	51,879	49,200	45,700
Veterans special life insurance	-46,016	-55,051	-38,049	-44,317	-44,194	-50,510	-56,486	-57,992	-67,000	-64,500
Total trust funds (gross)	727,067	684,761	837,547	999,433	1,060,665	1,054,207	1,044,071	1,082,365	1,161,300	1,248,400
Deduct: Proprietary receipts from the public	-486,982	-512,960	-526,328	-572,587	-600,967	-612,103	-605,105	-617,028	-560,100	-515,250
Total trust funds (net)	240,085	171,800	311,219	426,846	459,698	442,104	438,966	465,337	601,200	733,150
Deduct: Intragovernmental transactions	-2,148	-2,472	-2,369	-3,014	-6,640	-21,521	-65,911	-51,008	-52,775	-70,939
Total Veterans Administration	$18,019,353	$18,962,152	$19,887,172	$21,134,537	$22,904,003	$23,937,378	$24,826,872	$25,583,780	$26,811,268	$26,728,914

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BUDGET OUTLAYS
1977-1986
(dollars in thousands)

Appropriation/Fund Account	ACTUAL 1977	1978	1979	1980	1981	1982	ESTIMATES 1983	1984	1985	1986
Federal funds										
Benefit programs:										
Compensation and pensions	$8,999,596	$9,572,817	...	...	...	...	...	...	...	...
Compensation	...	...	$6,743,320	$7,433,501	$8,425,760	$9,276,429	$9,843,853	$9,915,741	$10,210,700	$10,194,000
Pensions	...	...	3,521,725	3,585,368	3,755,107	3,879,396	3,893,900	3,874,220	3,846,600	3,833,000
Burial benefits and miscellanous assistance	...	...	176,881	183,213	208,135	140,060	122,250	128,388	134,000	136,800
Readjustment benefits	3,700,004	3,361,716	2,810,812	2,416,979	2,332,121	2,005,365	1,713,702	1,400,267	1,246,285	1,034,500
Veterans insurance and indemnities	7,922	3,459	4,421	3,919	8,174	9,255	6,629	7,167	11,000	9,750
Reinstated entitlement program for survivors	...	...	...	...	...	...	...	44,802	2,325	...
Emergency veterans job training	...	...	...	...	...	...	...	17,078	88,423	35,000
Loan guaranty revolving fund	660	80,236	207,112	27,557	277,820	183,027	239,268	369,847	425,000	383,500
Direct loan revolving fund	-138,723	-38,990	-65,358	-67,154	-128,274	-62,266	-139,764	-44,573	-48,716	-45,600
Service-disabled veterans insurance fund	-1,509	2,119	893	2,709	-485	-2,563	432	-395	-1,000	1,000
Veterans reopened insurance fund	-27,227	-28,624	-27,900	-17,227	-13,778	-18,659	-22,475	-15,864	9,800	46,400
Education loan fund	13,320	34,593	6,367	3,338	987	-5,197	-6,577	-6,780	-7,300	-7,500
Vocational rehabilitation revolving fund	64	-1	23	8	-37	9	-21	24	8	-26
Servicemen's group life insurance fund	...	-464	464	-146	118	-39,998	-39,751	-27,010	-28,200	20,100
Total benefit programs	12,554,107	12,986,861	13,378,760	13,572,377	14,866,862	15,365,779	15,611,446	15,670,912	15,888,925	15,640,924
Medical programs:										
Medical care	4,290,617	4,809,318	5,159,544	5,981,288	6,320,088	6,851,668	7,602,087	8,123,794	8,742,021	9,051,700
Medical and prosthetic research	104,460	111,747	117,270	130,912	135,268	135,258	151,583	186,289	223,346	187,080
Medical administration and miscellaneous operating expenses	38,668	41,645	42,621	50,052	49,461	51,546	58,365	64,581	67,561	57,379
Grants for construction of state extended care facilities	7,828	6,900	14,303	14,223	9,002	15,253	13,612	5,154	18,064	24,125
Grants to the republic of the Philippines	2,045	1,770	187	1,330	1,202	182	353	454	1,046	500
Assistance for health manpower training institutions	31,109	39,533	40,672	42,406	47,175	34,377	17,467	5,252	4,020	...
Construction and operation of garage and parking facilities	...	...	...	-122	-134	80	176	...	...	...
Canteen service revolving fund	1,114	-2,788	-3,250	-887	-1,632	-803	-5,333	1,224	-504	-307
Special therapeutic and rehabilitation activities fund	-76	-161	-164	-191	-48	-175	-10	-72	-10	-10
Consolidated working fund	297	-250	3	1,369	...	...	...	...	...	...
Total medical programs	4,476,062	5,007,715	5,371,186	6,220,380	6,560,402	7,087,386	7,838,300	8,386,676	9,055,544	9,320,467

ADMINISTRATION'S PROPOSED LEGISLATION FOR FISCAL YEAR 1986

The following items are included in the President's legislative program for the first session of the 99th Congress and have been included in his fiscal year 1986 budget.

(In millions of dollars)

	Fiscal Year 1986	
	Budget authority	Budget outlays
Compensation:		
Cost-of living (COLA) increase of 4.1 percent, effective December 1, 1985....	$342.8	$285.7
Reinstated entitlement program for survivors:		
Cost-of-living (COLA) increase of 4.1 percent for spouses in receipt of Dependency and Indemnity Compensation (DIC), effective December 1, 1985.....	---	---
Education loan fund:		
Repeal the authority that permits the VA to make education loans.....	---	.044
Proprietary receipts:		
To effect reimbursement from third party insurance carriers for cost of medical care and treatment to veterans with non-service-connected disabilities, effective October 1, 1985.....	- 65.0	- 65.0
Loan guaranty:		
Legislative savings to increase the loan origination fee from 1 percent to 5 percent on all guaranteed and vendee loans.....	-404.6	-604.6
Allow for borrower/lender negotiated rates on guaranteed and vendee loans (mortgages); terminate the Administrator's authority to set interest rates.....	---	---
Repeal transfer authority from direct loan revolving fund to loan guaranty revolving fund.....	---	---
Total, proposed legislation.....	$-126.8	$-383.9

Note: The Administration will also propose legislation to establish a means test for certain categories of veterans without service-connected disabilities without regard to age.

COMMITTEE ON VETERANS' AFFAIRS PROPOSED LEGISLATION
FISCAL YEAR 1986

(In millions of dollars)

	Estimated Budget authority
Compensation, pension and insurance:	
Amend dependency and indemnity compensation rates for the surviving spouse of the Commandant of the Coast Guard	(1)
Increase Servicemen's Group Life Insurance maximum coverage from $35 to $50 thousand	0
Readjustment benefits:	
Improve the new educational assistance program for veterans and members of the Armed Forces	0
Extend the Emergency Veterans' Job Training Act of 1983	0
Amend authority to make Veterans' Readjustment Appointments	0
Medical care:	
Improve the delivery of health care services by the Veterans' Administration	0
Housing:	
Authorize certain disabled veterans to acquire suitable housing with specially adapted modifications	0
Memorial affairs:	
Direct the Administrator of Veterans' Affairs to establish a national cemetery in Merced County, California	0
Provide for the orderly expansion of the National Cemetery system	0
Total-legislation proposals	0

*(1) Insignificant

COMMITTEE ON VETERANS' AFFAIRS NONLEGISLATIVE PROPOSALS
FISCAL YEAR 1986

(In millions of dollars)

	FTEE	Estimated budget authority
Medical care:		
Enhance aging and extended care programs:		
(1) Expand adult day health care program	150	$9.0
(2) Expand geriatric evaluation units	206	9.0
(3) Expand Post-Traumatic Stress Disorder treatment program	95	5.0
(4) Expand geriatric research, educational, clinical centers	36	5.0
(5) Expand hospital-based home health care program	45	2.0
Advanced technology equipment upgrades:		
(1) Enhance decentralized hospital computer program	45	13.0
(2) Acquire two magnetic resonance imaging units	12	5.8
(3) Expansion of nuclear tele-transmission network	5	.5
(4) Acquire three digitalized vascular image units	0	.7
Memorial Affairs:		
Northern California Cemetery-apply purchase funds to development and planning	0	0
Total-nonlegislative proposals	594	$50.0

I. Presidential Proposals

(In millions of dollars)

Legislative Proposal	Estimate 1986	1987	1988
701 - To provide a 4.1 percent increase for service-connected disabled veterans and their surviving spouses and children, effective December 1, 1985.			
President's request:			
Budget authority	342.8	783.4	1,223.5
Outlays	285.7	721.5	1,171.1
Committee recommendation:			
Budget authority	342.8	783.4	1,223.5
Outlays	285.7	721.5	1,171.1

The Committee accepts the 4.1 percent increase in compensation for service disabled veterans and the same increase in dependency and indemnity compensation for surviving widows and children of veterans who died from service-connected causes.

(In millions of dollars)

Legislative proposal	Estimate 1986	1987	1988
702 - To repeal the authority that permits VA to make education loans.			
President's request:			
Budget authority	0	0	0
Outlays	-.044	0	0
Committee recommendations:			
Budget authority	0	0	0
Outlays	0	0	0

The education loan fund is used to provide loans of up to $2,500 to persons who are in training under chapter 34 or 35, title 38, U.S.C., but past their delimiting date with unused entitlement; and to veterans enrolled in flight training under chapter 34. Repayment is not required and interest is not charged until 9 months after the date the borrower ceases training. Loan amounts of more than $600 must be repaid within a period of 10 years; smaller amounts must be repaid in a proportionately shorter time.

No appropriation by Congress is required for this program. The fund balance and anticipated collections will be sufficient to support the expected volume of new loans, and authority exists to supplement this fund as required from the readjustment benefits appropriation.

The Administration has proposed that the authority permitting the VA to make education loans be repealed effective October 1, 1985, citing an excessively high default rate. The Administration estimates that only 44 veterans and survivors will be eligible for these loans in fiscal year 86.

The Committee rejects this proposal.

(In millions of dollars)

Legislative Proposal	Estimate 1986	1987	1988
703 - To effect reimbursement from third party insurance carriers for cost of medical care and treatment to veterans with non-service-connected disabilities, effective October 1, 1985.			
President's request:			
Budget authority	-65	-250	-265
Outlays	-65	-250	-265
Committee recommendation:			
Budget authority	0	0	0
Outlays	0	0	0

The Administration has not submitted to the Congress its proposal to effect third-party reimbursement.

The Committee and the Congress addressed the issue of third party reimbursement when considering H. R. 7102, the Veterans Administration Health Care Amendments of 1980, P.L. 96-330, during the 96th Congress. The Committees on Veterans' Affairs and Budget reached a compromise in agreeing to amend section 622 of title 38, U.S.C., authorizing the Administrator of Veterans Affairs to look behind the poverty oath in determining whether veterans under the age of 65 seeking care for non-service-connected disabilities are unable to defray expenses for health care. The intent of the House is clearly stated on page 294 of House Report No. 96-1167 as follows:

> The Committee on the Budget is aware that the proposed change in current law is the Committee's alternative to third-party reimbursement. If a non-service-connected veteran under age 65 submits an application for treatment in a VA medical facility, and is not eligible for Medicaid or in receipt of pension benefits, he will be required to sign a statement or oath of his or her inability to defray the expense of hospital care outside the VA.

The Administrator will then determine, on a case-by-case basis, in conjunction with a medical determination, whether the veteran has health insurance and the scope and amount of benefits available. For example, if a veteran has high-option Blue Cross-Blue Shield insurance coverage and desires treatment for a minor disability or illness, the Administrator would probably determine that the veteran is able to pay the expense for care in a non-VA facility. On the other hand, if a veteran has the same coverage and the illness is terminal cancer or the illness would require expensive treatment and in all probability exhaust all of his financial resources, the veteran would be determined eligible for treatment in a VA facility.

The Veterans' Affairs Committee recommends that in all cases the Administrator consider the current law relating to care and treatment of non-service-connected disabled veterans. The determination of providing care to this category of veterans is necessarily a subjective one, entailing considerations of not only the ability to privately pay for the expenses of an illness or injury, but also a judgment of whether or not the disability can be expected to require such a period of lengthy hospitalization as can reasonably be expected to exhaust the veterans' private resources.

In these cases, the Veterans' Affairs Committee is strongly of the opinion that the Administrator of Veterans' Affairs shall establish policies which will ensure that the probabilities of catastrophic, expensive or extensive medical treatment are totally considered in making "ability to pay" determinations for these veterans.

The Committee is not expected to favorably consider this issue during this session of the Congress.

(In millions of dollars)

Legislative proposal	Estimate 1986	1987	1988
704 - To increase the loan origination fee from 1 percent to 5 percent on all guaranteed and vendee loans			
President's request:			
Budget authority	-404.6	-307.9	-369.4
Outlays	-604.6	-606.0	-749.3
Committee recommendation:			
Budget authority	0	0	0
Outlays	0	0	0

In enacting the Deficit Reduction Act of 1984 last year, the Congress addressed the funding deficiency in the loan guaranty revolving fund. This deficiency was caused by the high unemployment rate and a subsequent mortgage foreclosure increase. The Deficit Reduction Act increased the 0.5 percent loan origination fee to 1 percent and requires that revenues be deposited in the Loan Guaranty Revolving Fund. (The fiscal year 1986 budget estimates that this 1 percent user fee will generate revenues of $149.2 million during fiscal year 1985.) The enactment of Public Law 98-369 was not only designed to make the loan guaranty revolving fund solvent in the outyears, but demonstrated Congressional interest in the continuation of this program which has benefited over 11 million veterans.

It should be emphasized that the proposal to increase the loan origination fee from 1 percent to 5 percent is an OMB initiative rather than one proposed by the VA, and its ultimate effect is difficult to evaluate properly. When questioned about this proposal and its potential adverse impact at a full Committee hearing on February 20, 1985, VA Administrator Harry Walters characterized his endorsement of this proposal as "reluctant". He further stated:

> It seems to me we ought to be very careful and cautious about what impact that [fee rise] will have on a veteran being able to start his new life... While the revolving fund is plainly in need of assistance, I don't want to throw the baby out with the bath water.

> We have all the way from the mortgage bankers who say they won't make one more loan...to my own people who say the program might be reduced as high as 50 percent...to people who say it won't have any impact at all. I don't know the answer to that. I just subscribe to the fact that there is a possibility here that an old-time, very resourceful veterans' benefit might be in danger.

The implementation of a 5 percent user fee would result in veterans being charged an average amount of $3,000 for the privilege of using the program. Spokesmen from veterans groups state that this would negate the beneficial aspects of the no down payment feature of the program and could effectively destroy it. In essence, this could be considered as a down payment requirement without giving the veteran the benefit of reducing the principal -- in other words, a selective tax burden on home buying veterans.

The CBO estimates that the enactment of a 5 percent fee would have the following additional effects on the activity of the Loan Guaranty Revolving Fund:

(a) The resulting increase in the effective cost of loans would depress new loan originations by an estimated 20 percent.

(b) Because of the increase in the length of time during which mortgagees would have no equity in the securing properties, the default rate for both guaranteed and vendee loans would increase.

(c) The average default cost for loans guaranteed under this provision would rise by 5 percent, because the fee would be financed as part of the mortgage principal.

(d) The discounts required on the sale of vendee loans incorporating the new fee would be higher because of the 105 percent loan-to-value ratio and because of the subsequently higher default rates.

According to CBO, the impact of all of these changes could be fund outlays in 1990 that are actually higher than would be expected under current law.

In view of the uncertain nature of any "beneficial" aspects of this recommendation, the Committee rejects this proposal and recommends that the necessary funds be appropriated to keep the program ongoing.

(In millions of dollars)

Legislative Proposal	1986	Estimate 1987	1988
704 - To allow for borrower/ lender negotiated rates on guaranteed and vendee loans (mortgages); terminate the Administrator's authority to set interest rates.			
President's request:			
Budget authority	0	0	0
Outlays	0	0	0
Committee recommendations:			
Budget authority	0	0	0
Outlays	0	0	0

Under current law, the Administrator has the authority to set the maximum interest rate which may be charged by a lender to a veteran homebuyer. Lenders are free to offer loans below this maximum rate. Loans below the maximum rate are rarely seen, except in cases where the rate is being subsidized by a Government agency, or where a developer in a new housing project has bought down the rate. There is little doubt that veterans will pay higher rates than they do now with an administered rate. This will erode veterans' purchasing power, meaning that fewer veterans will be able to afford housing, thereby lessening the benefit of VA-guaranteed loan financing. It will also cost those veterans who choose to participate in the program millions of additional dollars since negotiated rates at a higher level will translate into higher mortgage payments for veterans throughout the term of the loan.

The use of "negotiated" interest rates could increase VA claim costs and adversely affect the Loan Guaranty Revolving Fund. When a VA-guaranteed loan goes to foreclosure, the lender's claim is paid with interest based on the mortgage rate. Since it is expected that "negotiated" interest rates would be higher than current VA established maximum rates, the VA's claim costs would increase, resulting in increased outlays from the Loan Guaranty Revolving Fund. Because the Government assumes most of the risk on the guaranteed mortgage, it has an obligation to the taxpayer to moderate interest rates to the maximum extent possible to minimize its financial exposure.

For the above reasons, the Committee rejects this proposal.

(In millions of dollars)

Legislative Proposal	Estimate 1986	1987	1988
704 - To repeal transfer authority from Direct loan revolving fund to Loan guaranty revolving fund.			
President's request:			
Budget authority	0	0	0
Outlays	0	0	0
Committee recommendation:			
Budget authority	0	0	0
Outlays	0	0	0

Revenues and receipts from direct loan operations make funds available for the extension of credit to severely disabled veterans for specially adapted housing and for current expenses, excluding administrative costs. The fund also provided a source of financing to the loan guaranty program through transfers of unobligated funds. Transfer authority is not requested in the 1986 loan guaranty revolving fund appropriation language so as to reflect the true cost of the guaranty program in accordance with current Federal credit policy.

The Committee accepts this proposal.

II. CONGRESSIONAL PROPOSALS

(In millions of dollars)

Legislative proposal	Estimate 1986	1987	1988
701 - To provide for dependency and indemnity compensation for the surviving spouse of a Commandant of the Coast Guard at the same rate as provided for surviving spouses of other uniformed service chiefs.			
President's request:			
Budget authority	0	0	0
Outlays	0	0	0
Committee recommendation:			
Budget authority	(1)	(1)	(1)
Outlays	(1)	(1)	(1)

*(1) Insignificant

During the 98th Congress, the Administration submitted a legislative request to provide the surviving spouse of a Commandant of the Coast Guard dependency and indemnity compensation (DIC) at the same rate as is now provided for surviving spouses of other uniformed service chiefs. No legislative action was taken on the request.

DIC rates are based primarily on the active service military pay of the veteran. The Committee did not act on the administration request during the 98th Congress because the Commandant of the Coast Guard, at that time, received the same pay as other flag officers of the Coast Guard whereas other service chiefs received additional pay while serving in that capacity. Legislation was enacted late in the 98th Congress to adjust the military pay of the Coast Guard Commandant on the same basis as the other uniformed service chiefs. The Committee expects to adjust the DIC rates for the surviving spouse of a Coast Guard Commandant. The cost of this provision will be insignificant.

(In millions of dollars)

Legislative proposal	Estimate 1986	1987	1988
701 - To increase the maximum amount of coverage under the Servicemen's and Veterans' Group Life Insurance programs to $50,000 and to extend eligibility for these programs to members of the Individual Ready Reserve and Inactive National Guard.			
President's request:			
Budget authority	0	0	0
Outlays	0	0	0
Committee recommendation:			
Budget authority	0	0	0
Outlays	0	0	0

Current law provides a maximum amount of Servicemen's Group Life Insurance (SGLI) coverage of $35,000 for members of the All-Volunteer Armed Forces. The last increase in this ceiling was effective December 1, 1981. The concept of Government life insurance at its inception in 1917 was to make life insurance protection available to the uniformed services at a reasonable cost in view of the fact that commercial insurance companies either refused to insure the lives of men subject to wartime risk through a war clause, or were charged prohibitive premiums for waiving the clause. SGLI meets this need through a self-sustaining program at no cost to the Government.

The Committee expects to enact legislation to extend SGLI coverage to members of the Individual Ready Reserve and Inactive National Guard. This will serve to enhance the retention of these individuals in the reserve forces of our military establishment.

Under this proposal, the program, including the additional coverage provided herein, would continue to be self-supporting and would have no budgetary impact.

(In millions of dollars)

Legislative proposal	Estimate 1986	1987	1988
702 - To improve new educational assistance programs for veterans and for members of the Armed Forces:			
President's request:			
Budget authority	0	0	0
Outlays	0	0	0
Committee recommendation:			
Budget authority	0	(1)	(1)
Outlays	0	(1)	(1)

*(1) Insignificant

The Department of Defense Authorization Act of 1984 (Public Law 98-525) established a new GI bill for individuals who enter the military on or after July 1, 1985. Individuals who enroll in the program will have $100 deducted from their monthly pay for 12 months. Basic benefits under this program, up to a maximum of $300 per month for 36 months for full-time training, will be funded by the VA. The Department of Defense may fund additional education assistance benefits for retention or recruitment purposes.

It has been brought to the attention of the Committee that the military services are experiencing difficulty in recruitment and retention as the result of the July 1, 1985 beginning date for the program. Consequently, the Committee proposes legislation which will ensure an orderly transition to the new educational assistance program by amending the effective date of the program to the date of enactment of this legislation. Additionally, this legislation would provide that those individuals with prior service who return to active duty during the eligibility period will be eligible for benefits under this program. Under current law, only those individuals who first enter military service during this time are eligible for the educational benefits. This prohibition makes it difficult for the Armed Forces to attract those experienced individuals needed by our military.

(In millions of dollars)

Legislative proposal	Estimate 1986	1987	1988
702 - To extend Public Law 98-77, the Emergency Veterans' Job Training Act of 1983.			
President's request:			
Budget authority	0	0	0
Outlays	0	0	0
Committee recommendation:			
Budget authority	0	0	0
Outlays	0	0	0

Public Law 98-77, the Emergency Veterans' Job Training Act of 1983, established an emergency program of job training assistance to relieve unemployment among Korean conflict and Vietnam era veterans. This program was subsequently amended by Public Law 98-543, improving and extending the program by six months. On February 28, 1985, this program was closed to veterans seeking to initially apply for participation. The Bureau of Labor Statistics indicates that in January 1985 more than 440,000 Vietnam era veterans were still unemployed and estimates are that as many as 200,000 Korean conflict veterans may be unemployed. The Committee recommends that eligible veterans be given until December 31, 1985 to apply for this program in order to maximize its effectiveness. No additional funding is being sought at this time.

(In millions of dollars)

Legislative proposal	Estimate 1986	1987	1988
702 - To amend Veterans Readjustment Appointment Program.			
President's request:			
Budget authority	0	0	0
Outlays	0	0	0
Committee recommendation:			
Budget authority	0	0	0
Outlays	0	0	0

The Veterans Readjustment Appointment (VRA) program allows eligible Vietnam era veterans to be appointed noncompetitively to a Federal civilian job which leads to competitive status and career or career-conditional tenure upon satisfactory completion of 2 years of service and education or training.

Under current law, a non-disabled veteran of the Vietnam era does not qualify as a VRA appointee if he or she has over 14 years of education. Additionally, the maximum grade level for VRA appointments is GS-9. Because most Vietnam era veterans have now enhanced their education and gained experience in the work force, the Committee recommends that the 14 year educational limit be eliminated and the maximum grade level be increased to GS-11. Legislation to accomplish these changes was passed by the House in the 98th Congress but rejected by the Senate. The Committee believes these improvements in the VRA program are necessary and appropriate.

(In millions of dollars)

Legislative proposal	Estimate 1986	1987	1988
703 - Improve the delivery of health care services by the Veterans Administration.			
Budget authority	0	0	0
Outlays	0	0	0

The number of persons eligible for health care from the VA has grown over the past year from an estimated 10.7 million at the beginning of 1984 to an estimated 12.1 million at the beginning of 1985. An estimated 4.2 million eligible veterans are over the age of 65. A report by the VA on caring for these older veterans clearly sets forth the challenge of providing such veterans with appropriate health care. Many of the programs which will be of greatest utility in providing these veterans with health care are only provided by the VA following hospitalization of a veteran. The Committee expects to report legislation which will deal with several important issues in this area. The legislation is discussed below.

The concept of respite care is generally accepted as a more humane and efficient method of treating certain terminally ill patients in appropriate circumstances. It permits a hospital to discharge a patient to the patient's home with the understanding that care at the hospital can be provided on an emergent basis or when the care giver at home requires assistance. Explicit authority to provide such care in VA medical facilities would clarify the VA's authority to provide such care and would also reduce the demand for acute and intermediate care beds by veterans who could be cared for in their homes if respite care is available.

A non-service-connected veteran's eligibility for outpatient care at VA medical facilities is generally restricted to post hospital care or care needed to obviate admission to a hospital. In some instances, this results in a veteran being maintained in a VA nursing home or domiciliary bed in order to provide necessary care to complete treatment. In other cases, a veteran is admitted to a VA hospital bed from a nursing home bed or from a hospital-based home care program in order to make the veteran eligible for admission to a community nursing home at VA expense. These practices place a needless burden on acute and intermediate care beds, and should be eliminated.

Authorization for an expansion of the VA's Geriatric Research, Education, and Clinical Center program is also expected to be reported, along with modifications to the authorization for per diem payments to State Homes providing nursing home care to veterans. Both of these measures are expected to permit the VA to better meet the demand for health care from the older veteran.

Apart from the Committee's focus on caring for the older veteran, the Committee expects to consider legislation to extend the VA's authority to contract for care in halfway houses and other community-based treatment facilities for veterans suffering from alcohol or drug dependence or abuse disabilities. The Committee is also expected to consider an Administration-requested measure to enhance recruitment and retention of graduate and student nurse technicians by the VA. Neither of these measures is expected to result in additional costs.

(In millions of dollars)

Legislative proposal	Estimate 1986	1987	1988
704 - To authorize certain disabled veterans to acquire a suitable housing unit with specially adapted modifications.			
President's request:			
Budget authority	--	--	--
Outlays	--	--	--
Committee recommendation:			
Budget authority	--	--	--
Outlays	--	--	--

Chapter 21 of title 38, U.S.C., establishes two separate adapted housing grant programs for disabled veterans. The larger grant provides up to a maximum of $35,500 to certain service-connected disabled veterans to acquire a suitable housing unit or to make the necessary renovations in a home already owned. Under current law, veterans are eligible for the specially adapted housing "wheelchair" grant if they have a compensable permanent and total service-connected disability; (1) due to loss or loss of use of both lower extremities; or (2) which involves blindness in both eyes having only light perception plus loss or loss of use of one lower extremity; or (3) due to loss or loss of use of one lower extremity together with (a) residuals of organic disease or injury or (b) loss of or loss of use of one upper extremity which so affects the functions of balance of propulsion as to preclude locomotion without resort to a wheelchair. The other housing grant provides up to a maximum of $6,000 to certain service-connected disabled veterans who have suffered blindness in both eyes or the anatomical loss or loss of use of both hands to make necessary adaptations to their homes.

Unlike the $35,500 housing grant, those eligible for the $6,000 grant cannot use it to acquire a suitable home which already has the necessary adaptations. This bill corrects this discrepancy and treats both categories of disabled veterans equally. This is a technical amendment and has no cost. It does not affect eligibility requirements for the grant.

(In millions of dollars)

Legislative proposal	Estimate 1986	1987	1988
705 - To direct the Administrator of Veterans' Affairs to establish a national cemetery in Merced County, California.			
President's recommendation:			
Budget authority	--	--	--
Outlays	--	--	--
Committee recommendation:			
Budget authority	--	--	--
Outlays	--	--	--

A study undertaken by the VA identified areas within the country where establishment of an appropriately sized national cemetery would have the maximum impact on service to veterans. Nationally, California ranks first in veteran population with a total of 2.9 million veterans. This represents 10.6percent of total national veteran population. In order of magnitude, therefore, northern California has been identified as the area of the country most in need of a national cemetery. The fiscal year' 86 budget requests $6 million to purchase land for a cemetery in northern California.

The VA has two sites under consideration -- a 150 acre tract of land at the Camp Parks Reserve Forces training area in Dublin, and a 350-500 acre parcel privately owned in Merced County near the San Luis Reservoir. Although the VA has identified Camp Parks as their primary choice, there are several problems associated with this site.

(1) There is a hold on excessing the 150 acres at Camp Parks by the Subcommittee on Military Facilities and Installations of the Armed Services Committee. It is not certain that even if excessed, the land would go to the VA as there are several other interested parties.

(2) Under Administration policy, Federal agencies must pay the General Services Administration (GSA) fair market value for surplus government property. Several Committees of the House do not support the purchase of land by one Federal agency from another. As an example, the Armed Services Committee is on record as denying the Air Force and other agencies money to purchase property in 3 separate instances. The Committee on Veterans' Affairs does not support paying for land when an alternative site is available at no cost to the Government.

(3) 150 acres is not sufficient to establish a cemetery of the magnitude needed in northern California. Assurances of more land are necessary.

For these reasons, and in view of the critical need to establish a cemetery in northern California, the Committee is expected to pass legislation establishing a cemetery in Merced County, California, provided the land for the cemetery is transferred to the VA at no cost to the Federal Government.

(In millions of dollars)

Legislative proposal	Estimate 1986	1987	1988
705 - To provide for the orderly expansion of the National Cemetery System, and for other purposes.			
President's recommendation:			
Budget authority	--	--	--
Outlays	--	--	--
Committee recommendation:			
Budget authority	--	--	--
Outlays	--	--	--

Of the 109 operative national cemeteries, 51 are in closed status. Although the remaining 58 have ample gravesite resources, they are not appropriately located or distributed to effectively meet all veterans' present or future burial needs.

Interments in all national cemeteries have generally increased each year since establishment, and during the next 15 years, veteran deaths in the Nation will continue to increase annually. Available gravesites in the National Cemetery System will be greatly reduced and scattered in location. The projected peak period is estimated between the years 2000 and 2015.

The Committee initiative requests the VA to submit in its annual budget request a five-year plan for the construction and expansion of the National Cemetery System; a list in order of priority of the 10 geographic areas in the United States in which the need for additional burial space for veterans is greatest. The report must also include related projected costs similar to those being provided by the medical construction authorization plan mandated under section 5007 of title 38, U.S.C.

In addition, the bill would require the placement of upright headstones in national cemeteries. Approximately 70 percent of all markers placed in national cemeteries are flat. The Committee has received numerous complaints from areas subject to heavy snowfalls that flat markers are not visible for long periods of time, making it difficult for survivors to find the graves of their loved ones.

As national cemeteries commemorate the sacrifices of those who served, instituting an upright headstone policy will serve to enhance the dignity and aesthetic beauty traditionally associated with our national cemeteries.

PROGRAM OF COMMITTEE ON VETERANS' AFFAIRS
NONLEGISLATIVE PROPOSALS, FISCAL YEAR 1986

(In millions of dollars)

Proposal	Estimate 1986	1987	1988
703 - Enhance aging, extended care, and Post-Traumatic Stress Disorder programs.			
A. Add 15 adult day health care programs			
Budget authority	9.0	9.0	9.0
Outlays	8.0	8.0	8.0
FTEE	150	150	150
B. Add 31 geriatric evaluation units			
Budget authority	9.0	9.0	9.0
Outlays	8.0	8.0	8.0
FTEE	206	206	206
C. Expand Post-Traumatic Stress Disorder (PTSD) treatment programs			
Budget authority	5.0	5.0	5.0
Outlays	5.0	5.0	5.0
FTEE	95	95	95
D. Add 3 geriatric, research, education, and clinical centers (GRECCs)			
Budget authority	5.0	5.0	5.0
Outlays	5.0	5.0	5.0
FTEE	36	36	36
E. Add 9 hospital-based home care programs			
Budget authority	2.0	2.0	2.0
Outlays	2.0	2.0	2.0
FTEE	45	45	45

It is the Committee's understanding that, in response to the demand for health care projected in the VA report on caring for the older veteran, the Department of Medicine and Surgery requested funding for non-institutional programs which are responsive to that demand.

It is the Committee's further understanding that the OMB refused to fund any of the program initiatives requested by the VA, and refuses to permit expansion of such programs until their "cost effectiveness" has been demonstrated. The Committee finds this approach to innovative health care initiatives short-sighted; it conflicts with the very real imperative to find alternatives to long-term institutionalization of older veterans who require medical attention. Further, it ignores empirical evidence and common sense to suggest that programs such as adult day health care and hospital-based home care might not be cost effective, when the alternative is to build additional hospital and nursing care beds and provide staff to care for patients 24 hours a day.

With respect to geriatric evaluation units, a recent report in the New England Journal of Medicine found that the units had a dramatic impact on the death rate of patients who spent time in the units. Further, in the year following admission to a unit, patients ran up substantially fewer expenses for hospital re-admissions and nursing home care.

Activation of Geriatric, Research, Education, and Clincial Centers (GRECCs) has slipped far behind schedule in the past two years because of lack of funding. The cost effectiveness of research performed in such units is without doubt demonstrable; however, the Committee views their utility in more far-reaching terms. GRECCs are essential to the development of approaches to geriatric medicine which are humane, effective and of appropriate quality.

The Subcommittee on Hospitals and Health Care has held several hearings on the treatment of Vietnam veterans who are suffering psychological disorders (Post-Traumatic Stress Disorder (PTSD)) related to their wartime experience. The Committee believes that emphasis on meeting the needs for health care of veterans suffering from PTSD is both appropriate and necessary.

(In millions of dollars)

Proposal	Estimate 1986	1987	1988
703 - Advance technology equipment upgrade.			
A. Enhance decentralized hospital computer program			
Budget authority	13.0	13.0	13.0
Outlays	12.0	12.0	12.0
FTEE	45	45	45
B. Acquire 2 magnetic resonance imaging units			
Budget authority	5.8	5.8	5.8
Outlays	3.8	3.8	3.8
FTEE	12	12	12
C. Expand nuclear teletransmission network			
Budget authority	.5	.5	.5
Outlays	.5	.5	.5
FTEE	5	5	5
D. Acquire 3 digitalized vascular image units			
Budget authority	.7	.7	.7
Outlays	.7	.7	.7
FTEE	0	0	0

The VA's Department of Medicine and Surgery since its inception has had an intrinsic relationship between advancing science through research and providing the finest care to millions of veterans who come to the VA. As a consequence, the Department of Medicine and Surgery is a leader at the cutting edge of the modern art of medicine.

The Committee has long recognized that high technology is costly but that at least modest funding must be provided to ensure high quality health care for our nation's veterans.

This funding will provide "high tech" or advanced diagnostic equipment in very limited amounts to laboratories or medical facilities. Last year, the Committee recommended a small procurement of Nuclear Magnetic Resonance (NMR) units. This year, it is recommending funding for procurement of two state-of-the-art units now known as Magnetic Resonance Imaging Units (MRIU) which provide a new method of imaging body structures. The Committee also recommends procurement of three Digitalized Vascular Imaging (DVI) units which use computerized enhancement of images (similar to that used by NASA for space probes) to study blood vessels. The DVI can be used as a screening device on an outpatient basis, thereby greatly reducing the cost of providing this service. The Committee recommendation also includes funding for expanding a nuclear teletransmission network, as well as enhancements to the very successful Decentralized Hospital Computer Program system.

(In millions of dollars)

Proposal	Estimate 1986	1987	1988
705 - Northern California land purchase.			
President's request:			
Budget authority	6	0	0
Outlays	6	0	0
Committee recommendations:			
Budget authority	6	0	0
Outlays	6	0	0

The budget contains $6 million for land acquisition costs for the establishment of a national cemetery in northern California.

The Committee does not support the VA request to pay the General Services Administration for land to establish a national cemetery when such land belongs to the Department of Defense and is excess to its needs. The Armed Services Committee set a recent precedent by denying the Air Force and other agencies money to purchase property in three separate cases.

The Committee therefore recommends that these funds not be used to purchase land as there is an alternate site in Merced County available at no cost to the Federal Government. This site has been designated by the VA as one of the two sites currently under consideration.

As there is a critical need for a veterans cemetery in northern California, the Committee recommends that these funds be used in conjunction with the development of land and other such planning costs as may be necessary for the establishment of such cemetery in Merced County.

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G. V. (SONNY) MONTGOMERY
CHAIRMAN

U.S. House of Representatives

COMMITTEE ON VETERANS' AFFAIRS
335 CANNON HOUSE OFFICE BUILDING
Washington, D.C. 20515

January 9, 1985

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

I have read with great interest and considerable misgivings Secretary Regan's proposal to tax service-connected veterans' compensation. These benefits have from their inception been exempted from taxation, and I cannot imagine any justification that would warrant a departure from this long-standing policy.

Veterans compensation is designed to replace lost earning capacity attributable to disability. Since the benefit has traditionally been tax exempt, the rates reflect this status. For example, the rate for a single veteran who is totally disabled is only $15,540 per year. The difference between this rate and the average earnings of wage earners today reflects the tax exempt status of compensation benefits. To use the language of Treasury policy analysts, the present benefit rates are calculated on a "net replacement" basis. If the benefit were to be taxed, we in the Congress would have to raise the rates to their average earning loss equivalent. This action would probably more than offset the increased taxes to be realized.

Consider also that in addition to a proposed tax on the benefit, it has been proposed to deny a COLA in FY 1986. Taken together, the effect of these two policies is a double penalty imposed on some of our most deserving citizens, those who suffered grievous loss in the service of our country. It is indeed ironic that some of our most deserving citizens should have to bear an unjustly heavy tax burden.

The Congress has long recognized that changes in the structure of the labor market also change the effects that various disability levels have on earning capacity. We have adjusted to this by making the compensation rates incremental rather than straight line. For example, the rate for a 10% disability ($66 per month) is only 5% of the rate for total

disability and the rate for 90% ($779 per month) is only 60% of the total rate. The proposed tax credit of 15% on up to $6,000 of compensation for an individual is much more beneficial to the less disabled veteran than to those with more profound disability. Not only is this grossly unfair, but it also flies in the face of what we have been trying to do with the rate structure.

Armed services retirees who also have service-connected disabilities are precluded by law from drawing retirement and compensation concurrently. Instead, they must waive so much of their retirement pay as equals compensation. They do this only because compensation is not taxable and retirement based on length of service is. These retirees have continued to pressure this Committee for costly legislation that removes the prohibition against dual payments. With your proposal vitiating the benefit they receive by waiving retirement pay to receive compensation, the pressure on this Committee to permit receipt of both compensation and retired pay would be greatly increased.

I have tentatively scheduled a full Committee hearing on February 20, 1985 to hear from the Administrator of Veterans' Affairs on the VA budget. In view of the adverse impact the taxing of compensation would have on service-connected disabled veterans, we must hear Secretary Regan's justification for his recommendation to you, and I will insist that he or his spokesman appear before the Committee on that date to present the Administration's views and to answer questions relating to the proposal.

In order to prepare for that hearing, please have Secretary Regan provide answers to the following questions:

1. Would all Federal payments based on disability be taxed; e.g. disability benefits from social security, military retirement, Federal employees compensation, damage awards that are paid as compensation for civilian injury or death, etc.? If there are any exclusions, what is the rationale for the exclusion?

2. What is the estimated revenue to be realized from taxing compensation?

3. Please provide me with examples of how Secretary Regan's proposal and his tax credit would apply to veterans receiving each of the rates for the disabilities specified in title 38, U.S.C. 314 (a) through (s)?

4. VA compensation is based on "average impairments of earning capacity resulting from such injuries in civil occupations" so there is no penalty for overcoming the handicap of a disability. Thus, many totally disabled veterans have overcome their handicaps, returned to productive employment and pay taxes on their earnings. Have any efforts been made to calculate the tax loss attributable to the disincentive effect of your proposal on such veterans?

5. In addition to the basic percentage of disability rates, the law also provides special rates for veterans with special needs. For example, title 38, U.S.C. 314 (l) and (r) pay special rates based on disabilities so profound they require the aid and attendance of another person. Does Secretary Regan's proposal contemplate a deduction for the amounts actually expended for this purpose?

Mr. President, I trust you will not favorably consider this recommendation when you submit your budget to the Congress early next month.

Sincerely,

Sonny Montgomery

G. V. (SONNY) MONTGOMERY
Chairman

GVM:jr

cc: Secretary Donald Regan
Honorable Harry N. Walters
Honorable Frank H. Murkowski
Honorable Alan Cranston

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G. V. (SONNY) MONTGOMERY
CHAIRMAN

U.S. House of Representatives
COMMITTEE ON VETERANS' AFFAIRS
333 CANNON HOUSE OFFICE BUILDING
Washington, D.C. 20515

February 7, 1985

Honorable James A. Baker III
Secretary of the Treasury
15th and Pennsylvania Avenue
Washington, D. C. 20220

Dear Mr. Secretary:

Enclosed are copies of letters recently sent to the President expressing our views on a provision of the tax reform measure proposed by former Secretary Regan concerning taxation of compensation paid to service-connected veterans. Following your confirmation by the Senate, we were informed by your staff that you would be reviewing the tax reform proposal. It has been suggested that pending such review and your recommendations to the President, it would be premature to hear from the Treasury Department during our hearings on February 20 and 21. We agree.

We understand your desire to review in detail the tax reform package submitted by the former Secretary and, in that regard, will not insist that Treasury officials testify at our hearings; however, all of our members are anxious to know your views in reference to whether the compensation received by service-connected disabled veterans should be subject to Federal taxation. You can appreciate the many calls being received by members of both the House and Senate on this issue since it has been highly publicized by all the national veterans service organizations.

It would be most helpful to those of us who serve on the Veterans' Affairs Committee to know your views on this aspect of the tax reform package. During his State of the Union address Wednesday evening, the President said: "One thing that tax reform will not be is a tax increase in disguise. We will not jeopardize the mortgage-interest deduction that families need." Mr. Secretary, the taxing of compensation is a tax increase for the most deserving of our citizens and surely you and the President would not want to jeopardize the income provided them for their loss of earning capacity due to disabilities incurred in military service.

Honorable James A. Baker III/2 February 7, 1985

We are advised by the Ways and Means Committee that the Chairman has scheduled a hearing on February 27 to hear from you in reference to tax reform. We would like to have your views on the veterans tax issue by such date.

Sincerely,

Sonny Montgomery

G. V. (SONNY) MONTGOMERY
Chairman

John Paul

JOHN PAUL HAMMERSCHMIDT
Ranking Minority Member

GVM:clg

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Congress of the United States
House of Representatives
Committee on Appropriations
Washington, DC 20515

February 19, 1985

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TELEPHONE
(202) 225-2771

Honorable Harry N. Walters
Administrator
Veterans Administration
Washington, D.C. 20420

Dear Mr. Administrator:

The 1985 HUD-Independent Agencies Appropriation Act (Public Law 98-371) contained $8,792,165,000 for the medical care account. The statement of the managers accompanying the conference report on the bill indicated that the "funding is specifically intended to support 193,941 full-time equivalent employment (FTEEs)." Although, as I understand it, the 193,941 FTEEs has been allocated, insufficient money is being requested to fund an employment level above 191,849.

It appears the reduction of 2,092 FTEEs results primarily from the VA's proposal to absorb $106,695,000 of the funds required to cover increased pay costs. The stated rationale is that the VA now projects that the budgeted workloads can be achieved within an employment level of 191,849. The justification material also indicates this reduced FTEE level will enable the VA to begin the next fiscal year with an employment level consistent with that needed to maintain the 1986 projected workload.

I am not convinced that the 1985 budgeted workloads can be met with a reduced employment level. Further, reducing medical care staffing when the Veterans Administration is faced with a growing number of elderly veterans is not prudent. If the proposed change in eligibility legislation passes, it may be that the number of staff can be reduced. But reductions in the medical care FTEE should not occur until after a change in eligibility is enacted.

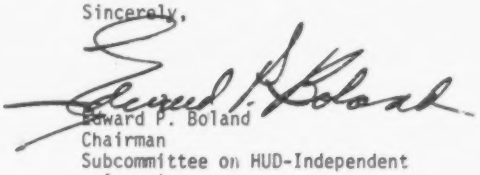
To maintain the medical care staffing level at 193,941, I will propose that an additional $80,000,000 be provided for medical care. That amount will be in addition to the $72,524,000 currently requested for increased pay costs. However, if no action is taken now, I am concerned that medical center directors will allow vital direct patient care staffing to decrease. To avoid the FTEE being reduced prior to receiving the additional funding, the VA should instruct the medical center directors to keep employment at the 193,941 level by reallocation of resources.

The 1986 medical care budget requests funds to support 192,048 FTEEs. While it is premature to estimate what ultimately will be the 1986 funding and staffing levels, I do not envision that the 1986 appropriation will support less than 193,941 FTEEs.

Reductions in the 1985 staffing in the medical and prosthetic research and medical administration and miscellaneous operating expenses appropriations are also noted. However, medical care is the number one priority and, at this time, only that proposed reduction in staffing is being addressed.

While cognizant of the deficit situation, I am sure any necessary program restraint can be taken in other areas of the Veterans Administration.

Sincerely,



Edward P. Boland
Chairman
Subcommittee on HUD-Independent
Agencies

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JOHN G. ROWLAND, CONNECTICUT

March 6, 1985

Honorable Harry N. Walters
Administrator of Veterans Affairs
Veterans Administration
Washington, D. C. 20420

Dear Mr. Administrator:

We are in receipt of a copy of the letter Chairman Eddie Boland wrote to you on February 19, 1985, concerning the reduction of 2,092 FTEE in VA's 1985 medical care account. The reduction from the level requested by the Administration and granted by the Congress resulted from the decision to absorb $106,695,000 of the funds required to cover the pay increase.

Earlier today, our committee recommended to the Committee on the Budget that the 2,092 FTEE and the 2,068 FTEE for new activations be added to the President's budget for the next fiscal year so that current workloads can be maintained. We agree with Chairman Boland that the 1985 workloads cannct be met with a reduced employment level, and we will support him in his efforts to get the additional funds appropriated at an early date.

We also share Chairman Boland's view that you should instruct the medical center directors to keep employment at the 193,941 level by reallocation of resources. This must be done without delay, otherwise, the medical centers will lose many of their vital staff. We see very strong support for this in the House and urge that the Chief Medical Director provide maximum flexibility to all center directors in the use of funds in order to maintain proper staffing levels until the additional funds are provided.

Sincerely,

G. V. (SONNY) MONTGOMERY
Chairman

JOHN PAUL HAMMERSCHMIDT
Ranking Minority Member

GVM:JPH:cls

cc: John W. Ditzler, M.D.